

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. WS-01303A-06-0403

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 17, 2007

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on March 27, 2007.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments
10 pertaining to adjustments I sponsored in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address the following RUCO proposed
15 adjustments:

16 Rate Base:

17 Adjustment No. 5 - (WATER DISTRICT ONLY) Rate Base
18 Treatment Of The Phoenix Interconnect
19 Agreement;

20 Adjustment No. 6 - (WASTEWATER DISTRICT ONLY) Rate
21 Base Treatment Of Waste Disposal At The
22 Sun City West Wastewater District
23 Northwest Treatment Plant; and

24 Adjustment No. 7 - Allowance For Working Capital.

25

Operating Income:

- Adjustment No. 3 - (WATER DISTRICT ONLY) Amortization Of
The Phoenix Interconnect Agreement;
Adjustment No. 4 - Test-Year Depreciation Expense;
Adjustment No. 6 - Anthem Direct Payroll And Related
Benefits;
Adjustment No. 7 - Corporate Direct Payroll And Related
Benefits;
Adjustment No. 8 - Rate Case Expense;
Adjustment No. 9 - Unnecessary Miscellaneous Expenses;
Adjustment No. 10 - (WASTEWATER DISTRICT ONLY) Cost
For Waste Disposal At The Sun City West
Wastewater District Northwest Treatment
Plant;
Adjustment No. 11 – (WATER DISTRICT ONLY) Proforma
Expenses Budgeted For Conservation;
Adjustment No. 12 - Property Tax Computation; and
Adjustment No. 13 – Income Tax Calculation.

To support the adjustments in my surrebuttal testimony, I have made
revisions to certain Schedules filed in my direct testimony and prepared
Anthem Water Surrebuttal Schedules and Anthem Wastewater Surrebuttal
Schedules each numbered SURR RLM-1, SURR RLM-2, SURR RLM-5,
SURR RLM-6, SURR RLM-7, SURR RLM-9, and SURR RLM-11 through
SURR RLM-16, which are filed concurrently in my surrebuttal testimony.

1 These Schedules quantify the adjustments recommended in RUCO's
2 surrebuttal testimonies and consist of revisions to:

- 3 1. Allowance For Working Capital to reflect changes in the operating
4 expenses associated with RUCO surrebuttal adjustments;
- 5 2. Test-Year Depreciation and Amortization Expense to reflect
6 computations based on the Company's rebuttal testimony;
- 7 3. 'Anthem Direct' and 'Corporate Allocated' Payroll and Related
8 Benefits Expense to reflect computations based on the Company's
9 rebuttal testimony;
- 10 4. Disallowance of Inappropriate Miscellaneous Expenses to reflect
11 information provided in the Company's rebuttal testimony;
- 12 5. Income Tax Expense to reflect changes in the operating expenses
13 associated with RUCO surrebuttal adjustments;
- 14 6. Rate Design, Proof of Recommended Revenue and Typical Bill
15 Analysis to reflect information provided in the Company's rebuttal
16 testimony and changes in the increase in gross revenue
17 requirement associated with RUCO surrebuttal adjustments; and
- 18 7. Cost of Capital to reflect current market conditions.

RATE BASE

RUCO Rate Base Adjustments No. 1, No. 2 and No. 4 – Acceptance of
Several Company Rebuttal Adjustments

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to its rate base?

A. Yes. RUCO agrees with several of the Company's rebuttal adjustments and has revised its levels of test-year gross plant in service, accumulated depreciation and advances in aid of construction to mirror the Company's Water District rebuttal adjustments on Schedule B-2, columns [B], [D] and [F] and Wastewater District rebuttal adjustments on Schedule B-2, columns [B], [C] and [E].

RUCO Rate Base Adjustment No. 3 – Remove Post-Test-Year Imputed
Advances In aid of Construction and Contribution In Aid of Construction

Q. After analyzing your direct testimony, is the Company proposing any revisions to its rate base to reflect RUCO adjustments?

A. Yes. The Company accepts RUCO's recommended test-year levels of imputed regulatory advances and contributions in aid of construction as reflected on the Company's Water District Rebuttal Schedule B-2, column [E] and Wastewater District Rebuttal Schedule B-2, column [D].

1 RUCO Rate Base Adjustment No. 5 – (Water District Only) Adjust

2 Payment for the City of Phoenix Interconnect Agreement

3 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
4 adjustment to the Phoenix Interconnect Agreement?

5 A. No. RUCO's adjustment is based on the Company's original filing which
6 recognized this regulatory asset within a hypothetical capital structure.
7 RUCO continues to recommend the appropriate treatment of the
8 Company's payment to the City of Phoenix for the interconnect agreement
9 is as explained in my direct testimony. The appropriate treatment as
10 explained in my direct testimony consists of three elements. First, RUCO
11 reclassified the Company's proposed adjustment from treatment as utility
12 plant-in-service to recognition as a regulatory rate base asset. Second,
13 RUCO removed the Company's adjustment to include the post-test-year
14 payment of \$1,000,000 recorded in June 2006. Third, RUCO adjusted the
15 amortization of the Company's payment to reflect a half-year convention
16 on the test-year amortized amount and the disallowance of the post-test-
17 year amortization. These elements of RUCO's adjustment were
18 necessary to adhere to the historical test year principle, as well as to
19 properly account for the Phoenix Agreement as a regulatory asset and not
20 plant-in-service.

21

22 The Company, in its rebuttal, is making a radical revision to its filing by
23 reconsidering its contractual obligations to the City of Phoenix as cost free

1 debt within a projected capital structure that contains elements not
2 contemplated in the original filing. Since a hypothetical capital structure,
3 as the Company originally proposed is more appropriate than a projected
4 capital structure here for the reasons stated in Mr. Rigsby's testimony, the
5 transformation of this test-year payment into the capital structure would
6 artificially increase the revenue requirement and be detrimental to the
7 ratepayer's interest.

8

9 If the Commission chooses a capital structure other than RUCO's
10 proposed hypothetical design, then the Company's rebuttal treatment of
11 the Phoenix Agreement would produce a revenue neutral transaction with
12 no detrimental effect on ratepayers. However, RUCO witness Mr. Rigsby
13 is adamant about the adherence to the hypothetical capital structure and
14 further explains the ramifications of the Company's attempt to alter the
15 capital structure in his surrebuttal testimony. Therefore, adherence to a
16 hypothetical capital structure dictates that the Phoenix Agreement be
17 treated as outlined by RUCO in its direct testimony and as shown on
18 Schedule SURR-RLM-2, column (E).

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1 RUCO Rate Base Adjustment No. 6 – (Wastewater District Only)
2 Reclassify Cost for Waste Disposal at Sun City Wastewater District's
3 Northwest Valley Treatment Plant

4 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
5 adjustment to the cost for waste disposal at Sun City Wastewater District's
6 Northwest Valley Treatment Plant ("NWVTP")?

7 A. No. Since Anthem has no ownership in the NWVTP assets it is improper
8 to include the NWVTP in Anthem's rate base. RUCO recommends the
9 cost of Anthem's use of a portion of this plant be recognized as an O & M
10 expense as explained in my direct testimony.

11
12 Moreover, to recognize the impact of this adjustment on AZ-AM as a
13 whole, RUCO will be making the appropriate adjustment in the upcoming
14 Sun City West Wastewater District's rate filing to ensure the affect on all
15 AZ-AM's ratemaking elements remain neutral.

16
17 The intent of this adjustment is to assign the appropriate plant assets and
18 financial responsibilities to the correct District's ratepayers.

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1 RUCO Rate Base Adjustment No. 7 – Adjust Allowance For Working
2 Capital

3 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
4 adjustment to the allowance for working capital?

5 A. No, except for the adjustment associated with RUCO's revised
6 recommended operating expenses, RUCO recommends a reasonable
7 allowance for working capital based on the lead/lag study RUCO
8 performed. Despite the fact that the Company is required by the
9 Commission's own precedent to perform a lead/lag calculation it failed to
10 do so; therefore, RUCO used the most recent lead/lag study computed by
11 AZ-AM in its recent Mohave rate case. That study provides adequate
12 parameters for the determination of the appropriate cash working capital
13 requirement.

14
15 The Company on the other hand relied on Staff's zero working capital
16 recommendation which is not supported by any analysis and amounts to
17 just a policy call by Staff. Staff in the past has testified that most
18 sophisticated companies have negative working capital requirements (See
19 the direct testimony at page six of James Dorf in the Company's Paradise
20 Valley Water District's rate case, Decision No. 69396.) The Company is a
21 "sophisticated" utility and there is no basis for the zero working capital
22 allowance.

23

1 Q. Does the Company agree with RUCO's lead/lag calculations?

2 A. No. The Company states the RUCO's lead/lag calculation is inappropriate
3 because:

- 4 1. The lead/lag study was borrowed from the Mohave rate case;
- 5 2. Mohave's test year is different than that the test year in the instant
6 case; and
- 7 3. Mohave lead/lag study uses different lag days than in the instant
8 case.

9
10 Q. Do these arguments have merit?

11 A. No. First, the lead/lag study used by RUCO was developed by AZ-AM
12 and a large portion of the expenses is incurred at AZ-AM's
13 central/corporate headquarters, which are common to both Mohave and
14 Anthem. Thus, the study is just as applicable in this case as it was in the
15 Mohave case; since it is a working capital analysis of the Company.

16
17 Second, aligning the twelve months of these two test years is irrelevant to
18 the lead/lag calculations, since the timing of expense payments is not
19 typically dependent on test years.

20
21 Third, many expense payments have identical lags for every utility, i.e.
22 income tax, property tax, and taxes other than income. The one example
23 of different lag days that the Company refers to between Mohave and

1 Anthem is purchased water expense. If RUCO substituted the Anthem
2 purchased water lag days for Mohave purchased water lag days it would
3 further reduce the rate base by \$119,055.

4
5 Thus, I believe my lead/lag calculation as originally filed is appropriate and
6 as shown on Schedule SURR-RLM-5, RUCO's recommendation of the
7 working capital allowance is fair and reasonable.

8

9 **OPERATING INCOME**

10 Operating Income Adjustments No. 1, No. 2 and No. 5 – Acceptance of
11 Several Company Rebuttal Adjustments

12 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
13 adjustment to its operating expenses?

14 A. Yes. RUCO agrees with several of the Company's rebuttal adjustments
15 and has revised its levels of test-year operating expenses to mirror the
16 Company's Water and Wastewater District rebuttal adjustments on
17 Schedule C-2, columns [B], [C] and [F] to correct the level of Management
18 Fees and CIAC amortization.

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1 Operating Income Adjustment No. 3 – (Water District Only) Amortization of
2 the City of Phoenix Interconnect Agreement

3 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
4 adjustment to the amortization of the Phoenix interconnect agreement?

5 A. No. This is a companion adjustment to RUCO rate base adjustment No.
6 5. For the same reasons in rate base adjustment No. 5 above, there is no
7 revision to RUCO's recommended level of amortization as stated in my
8 direct testimony.

9
10 Operating Income Adjustment No. 4 – Test-Year Depreciation Expense

11 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
12 adjustment to depreciation expenses?

13 A. Yes. RUCO agrees with the Company's rebuttal levels of test-year gross
14 plant and proposed depreciation rates. As shown on Schedule SURR-
15 RLM-9, I computed the test-year depreciation expense based on the
16 Company's determinants.

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1 Operating Income Adjustments No. 6 and No. 7 – Normalize the ‘Anthem

2 Direct’ and ‘Corporate Allocated’ Payroll and Related Benefits

3 Q. After analyzing the Company’s rebuttal testimony, is RUCO revising its
4 adjustment to its operating expenses?

5 A. Yes. RUCO agrees with several of the Company’s adjustments and
6 revised its Schedule to mirror the Company’s rebuttal position on all
7 elements except the employee hourly rate of pay.

8
9 RUCO adheres to the historical test-year principle and therefore
10 normalized all payroll and related benefits based on the end of test year
11 salary levels. The Company provides annual pay raises to its employees;
12 therefore, to reach out past the end of the test year and calculate labor
13 expenses and related benefits on the compounded salary increase of an
14 additional year violates the matching principle.

15
16 Operating Income Adjustment No. 8 – Rate Case Expense

17 Q. After analyzing the Company’s rebuttal testimony, is RUCO revising its
18 adjustment to rate case expenses?

19 A. No. The Company did not discuss rate case expenses in its rebuttal
20 testimony; therefore, since no additional issues need to be illuminated, my
21 direct testimony fully explains RUCO’s recommended level of rate case
22 expense.

23

1 Operating Income Adjustment No. 9 – Disallowance of Inappropriate
2 and/or Unnecessary Miscellaneous Expenses

3 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
4 adjustment to miscellaneous expenses?

5 A. Yes. After reviewing the rebuttal testimony of Company witness Mr. Cole,
6 I modified my adjustment to allow those expenses related to appropriate
7 operation and maintenance activities. However, as indicated in Mr. Cole's
8 response several of the entries recorded on my workpapers remain
9 inappropriate.

10

11 As shown on the respective workpapers for Schedule SURR-RLM-12, my
12 adjustment disallows expenses which were described, in part, by the
13 Company as; award lunches, sponsorship, not recurring, tasks now
14 handled in-house, and condiments for staff, etc.

15

16 Since the Company did not analyze or comment on the portion of my
17 adjustment detailing Corporate and Central inappropriate miscellaneous
18 expenses, I made no revision to those disallowances.

19

20 RUCO maintains certain categories of expenses should not be the
21 financial burden of the ratepayers. For example:

22

1. Liquor, Coffee, Candy, Donuts, etc.

23

2. Flowers, Awards, Sponsorships, Club Memberships, etc.

3. Numerous purchases at Safeway, Wal-Mart, Basha's, etc.

Operating Income Adjustment No. 10 – (Wastewater District Only)
Reclassify Cost for Waste Disposal at Sun City West Wastewater District's
Northwest Valley Treatment Plant

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to its operating expenses?

A. No. This is a companion adjustment to RUCO rate base adjustment No. 6. As explained above in RUCO rate base adjustment No. 6, this is the appropriate method of keeping the Company whole while allocating the costs associated with the waste disposal at Sun City West Wastewater District's facilities to the proper ratepayers.

Operating Income Adjustment No. 11 – (Water District Only) Disallowance
of Proforma Expenses Budget for Conservation

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to miscellaneous expenses?

A. No. This again illustrates RUCO's adherence to the historical test-year principle, which also formed the basis for RUCO's previous adjustments to the City of Phoenix interconnect agreement and the normalization of payroll and related benefits. This proposed expense is to cover projected costs expected to be incurred outside the test year; therefore, RUCO is disallowing it.

1 Operating Income Adjustment No. 12 – Property Tax Expense

2 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
3 adjustment to its property tax expense?

4 A. No. As fully explained in my direct testimony, the level of RUCO's
5 recommended test-year property tax expenses was appropriately
6 computed by the adherence to the Arizona Department of Revenue's
7 formula.

8
9 Operating Income Adjustment No. 13 – Income Tax Expense

10 Q. Please explain RUCO's adjustment to income tax expense.

11 A. This adjustment reflects income tax expenses calculated on RUCO's
12 surrebuttal recommended revenues and expenses.

13

14 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

15 Q. Have you revised your rate design and proof of your recommended
16 revenue?

17 A. Yes. As Shown on Schedule SURR RLM-14, the rate design was revised
18 to mirror the Company's proposed bill determinants and break-over points;
19 while calculating basic service charges and commodity rates that will
20 produce RUCO's revised surrebuttal recommended required revenue.

21

22

23

TYPICAL BILL ANALYSIS

Q. Have you revised your typical bill analysis based on your surrebuttal recommended revenue?

A. Yes. As shown on Schedule SURR RLM-15, I have revised the typical bill analysis for metered residential customers with various levels of usage.

COST OF CAPITAL

Q. Is RUCO revising its adjustments to the Company proposed cost of capital?

A. Yes. As shown on Schedule SURR RLM-16, this revised adjustment decreases RUCO's direct testimony weighted cost of capital by 11 basis points, which is 85 basis points below the Company's requested weighted cost of capital. This revised adjustment is fully explained in the surrebuttal testimony of RUCO witness Mr. Rigsby.

Q. What impact do your surrebuttal revisions have on RUCO's recommended increase in revenue requirements?

A. RUCO's recommended increase in revenue requirements has been revised downward in my surrebuttal testimony as follows:

	<u>DIRECT</u>	<u>SURREBUTTAL</u>
WATER DISTRICT	\$2,395,426	\$2,260,117
WASTEWATER DISTRICT	\$1,532,254	\$1,187,063

- 1 Q. Does this conclude your surrebuttal testimony?
- 2 A. Yes, it does.

SURREBUTTAL
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SURR-RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 7 - ALLOWANCE FOR WORKING CAPITAL
SURR-RLM-6	1	OPERATING INCOME
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SURR-RLM-16	1	COST OF CAPITAL

**SURREBUTTAL
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 43,100,616	\$ 32,579,264
2	Adjusted Operating Income (Loss)	\$ 797,742	\$ 965,789
3	Current Rate Of Return (L2 / L1)	1.85%	2.96%
4	Required Operating Income (L5 X L1)	\$ 3,590,281	\$ 2,353,526
5	Required Rate Of Return On Fair Value Rate Base	8.33%	7.22%
6	Operating Income Deficiency (L4 - L2)	\$ 2,792,539	\$ 1,387,737
7	Gross Revenue Conversion Factor (SURR-RLM-1, Page 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 4,548,026	\$ 2,260,117
9	Adjusted Test Year Revenue	\$ 6,867,770	\$ 6,867,609
10	Proposed Annual Revenue (L8 + L9)	\$ 11,415,796	\$ 9,127,726
11	Required Percentage Increase In Revenue (L8 / L9)	66.22%	32.91%
12	Rate Of Return On Common Equity	11.75%	10.01%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3860)			
3	Subtotal (L1 + L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,353,526			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	965,789			
13	Required Increase In Operating Income (L11 - L12)		\$ 1,387,737		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 819,628			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(52,752)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 872,380		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 2,260,117</u>		
	CALCULATION OF INCOME TAX:				
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended \$ 9,127,726	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			(5,954,572)	
20	Synchronized Interest (Col. (C), L37)			(1,049,704)	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 2,123,450	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 147,962
24	Fed. Taxable Income (L21 - L23)			\$ 1,975,488	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			557,766	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 671,666
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 819,628</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)				\$ (52,752)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 872,380</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. SURR-RLM-2, Col. (H), L15)			\$ 32,579,264	
36	Weighted Avg. Cost Of Debt (Sch. SURR-RLM-16, Col. (F), L1)			3.22%	
37	Synchronized Interest (L35 X L36)			<u>\$ 1,049,704</u>	

SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJMT NO. 1	(C) RUCO ADJMT NO. 2	(D) RUCO ADJMT NO. 3	(E) RUCO ADJMT NO. 4	(F) RUCO ADJMT NO. 5	(G) RUCO ADJMT NO. 6	(H) RUCO ADJMT NO. 7	(I) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 81,586,201	\$ (2,413,225)	\$ -	\$ -	\$ -	\$ (2,000,000)	\$ -	\$ -	\$ 77,172,976
2	Amortization Of Phoenix Interconnection	(109,589)	-	-	-	-	109,589	-	-	-
3	Accumulated Depreciation	(7,317,529)	230,144	(446,034)	-	-	-	-	-	(7,533,419)
4	Net Utility Plant In Service (Sum L1, L2 & L3)	<u>\$ 74,159,083</u>	<u>\$ (2,183,081)</u>	<u>\$ (446,034)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,890,411)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,639,557</u>
5	Advances In Aid Of Const.	\$ (26,316,298)	\$ -	\$ 303,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (26,012,655)
6	Contribution In Aid Of Const.	\$ (117,915)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (117,915)
7	Accumulated Amortization Of CIAC	5,025	-	-	-	-	-	-	-	5,025
8	NET CIAC (L6 + L7)	<u>\$ (112,890)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (112,890)</u>
9	Regulatory Asset - Phoenix Interconnection	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
10	Amortization Of Regulatory Asset	-	-	-	-	-	(27,397)	-	-	(27,397)
11	Imputed Regulatory Advances	\$ (4,475,945)	\$ -	\$ -	\$ (6,897,860)	\$ -	\$ -	\$ -	\$ -	\$ (11,373,805)
12	Imputed Regulatory Contributions	\$ (483,942)	\$ -	\$ -	\$ (165,733)	\$ -	\$ -	\$ -	\$ -	\$ (649,675)
13	Customer Meter Deposits	\$ (2,880)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,880)
14	Deferred Income Taxes And Credits	\$ 284,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 284,160
15	Investment Tax Credits	\$ (11,546)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (11,546)
16	Allowance For Working Capital	<u>\$ 60,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (241,877)</u>	<u>\$ (181,003)</u>
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 16)	<u>\$ 43,100,616</u>	<u>\$ (2,183,081)</u>	<u>\$ (142,391)</u>	<u>\$ (7,063,593)</u>	<u>\$ -</u>	<u>\$ (890,411)</u>	<u>\$ -</u>	<u>\$ (241,877)</u>	<u>\$ 32,579,264</u>
Differences Between RUCO And Company Revised Rate Bases:										
18	RUCO Disallows Company Adjustment To PHX Interconnect									\$ 3,009,589
19	Company Disagrees With RUCO Adjustment To PHX Interconnect									\$ 890,411
20	Company Disagrees With RUCO Adjustment To Working Capital									\$ 241,877
21	Company Rebuttal Total Rate Base									<u>\$ 36,721,140</u>

References: Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Adjustment No. 1 - RUCO Agrees With Company And Staff Adjustment To Gross Plant And Accumulated Depreciation
Column (C): Adjustment No. 2 - RUCO Agrees With Company Adjustments To Accumulated Depreciation And AIAC
Column (D): Adjustment No. 3 - Company Agrees To RUCO's Removal Of Post Test-Year AIAC And CIAC
Column (E): Adjustment No. 4 - Intentionally Left Blank (Wastewater District Adjustment Only)
Column (F): Adjustment No. 5 - Adjust Post Test-Year Amortization Payment Of PHX Interconnect (See Testimony, RLM)
Column (G): Adjustment No. 6 - Intentionally Left Blank (Wastewater District Adjustment Only)
Column (H): Adjustment No. 7 - Allowance For Working Capital (See SURR-RLM-5)
Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F),(G) & (H)

Arizona-Amercian Water Company
Docket No. WS-01303A-06-0403
Test Year Ended December 31, 2005

Anthem Water District
Schedule SURR-RLM-5
Page 1 of 2

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 7
ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 20,581	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	20,581	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 40,293	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	40,293	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ -	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(241,877)	Schedule SURR-RLM-5, Page 2
9	Adjustment	\$ (241,877)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See SURR-RLM-2, Column (H))	<u>\$ (241,877)</u>	Sum Lines 3, 6 & 9

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 7 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 574,132	\$ (52,502)	\$ 521,630	12.00	\$ 6,259,559
2	Purchased Water	649,372	-	649,372	86.67	56,281,071
3	Fuel & Power	845,394	-	845,394	32.42	27,407,673
4	Chemicals	56,331	-	56,331	28.47	1,603,744
5	Waste Disposal	-	-	-	30.00	-
6	Management Fees	1,036,634	(160,351)	876,283	(3.88)	(3,399,978)
7	Group Insurance	94,402	(425)	93,977	(4.64)	(436,053)
8	Pensions	35,066	-	35,066	45.00	1,577,970
9	Insurance Other Than Group	116,992	(11,884)	105,108	45.00	4,729,860
10	Customer Accounting	123,069	-	123,069	7.46	918,095
11	Rents	15,455	(1,305)	14,150	(10.68)	(151,122)
12	Other Operating Expenses	571,394	(800)	570,594	30.00	17,117,820
13	Taxes Other Than Income	60,463	(18,309)	42,154	15.65	659,703
14	Property Taxes	330,552	(3,980)	326,572	212.50	69,396,550
15	Income Tax	(482,044)	429,292	819,628	42.04	34,457,159
16	Interest	-	1,049,704	1,049,704	106.52	111,814,458
17	Total Appropriate Operating Expenses	<u>\$ 4,027,212</u>	<u>\$ (226,467)</u>	<u>\$ 6,129,031</u>		<u>\$ 328,236,509</u>
18	Expense Lag		Line 17, Col. (E) / (C)	53.55		
19	Revenue Lag		Company Workpapers	39.15		
20	Net Lag		Line 19 - Line 18	(14.40)		
21	RUCO Adjusted Expenses		Col. (C), Line 17	<u>\$ 6,129,031</u>		
22	Cash Working Capital		Line 20 X Line 21 / 365 Days	<u>(241,877)</u>		
23	Company As Filed		Co. Schedule B-5, Page 1	-		
24	Difference		Line 22 - Line 23	<u>\$ (241,877)</u>		
25	ADJUSTMENT (See SURR-RLM-5, Page 1, L 10)		Line 24	<u>\$ (241,877)</u>		

References:

Column (A): - Company Schedule C-1, Revised
Column (B): RUCO Operating Income Adjustments (See Schedule SURR-RLM-7)
Column (C): Column (A) + (B)
Column (D): RUCO Post-Hearing Position Filed In Arizona-American Mohave Water District As Per Schedule TJC-5, Page 2 Column (B)
Column (E): Column (C) X Column (D)

**SURREBUTTAL
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 4,878,311	\$ -	\$ 4,878,311	\$ 2,260,117	\$ 7,138,428
2	Unmetered Water Revenues	63,022	-	63,022	-	63,022
3	Other Water Revenues	1,926,437	(161)	1,926,276	-	1,926,276
4	TOTAL OPERATING REVENUE	<u>\$ 6,867,770</u>	<u>\$ (161)</u>	<u>\$ 6,867,609</u>	<u>\$ 2,260,117</u>	<u>\$ 9,127,726</u>
	Operating Expenses:					
5	Labor	\$ 574,132	\$ (52,502)	\$ 521,630	\$ -	\$ 521,630
6	Purchased Water	649,372	-	649,372	-	649,372
7	Fuel & Power	845,394	-	845,394	-	845,394
8	Chemicals	56,331	-	56,331	-	56,331
9	Waste Disposal	-	-	-	-	-
10	Management Fees	1,036,634	(160,351)	876,283	-	876,283
11	Group Insurance	94,402	(425)	93,977	-	93,977
12	Pensions	35,066	-	35,066	-	35,066
13	Regulatory Expense	50,000	(19,340)	30,660	-	30,660
14	Insurance Other Than Group	116,992	(11,884)	105,108	-	105,108
15	Customer Accounting	123,069	-	123,069	-	123,069
16	Rents	15,455	(1,305)	14,150	-	14,150
17	General Office Expense	78,439	(6,245)	72,194	-	72,194
18	Miscellaneous	307,456	(85,828)	221,628	-	221,628
19	Other Maintenance	185,499	(800)	184,699	-	184,699
20	Depreciation & Amortization	1,992,814	(236,528)	1,756,286	-	1,756,286
21	Taxes Other Than Income	60,463	(18,309)	42,154	-	42,154
22	Property Taxes	330,552	(3,980)	326,572	-	326,572
23	Income Tax	(482,044)	429,292	(52,752)	872,380	819,628
24	Rounding	2				
25	TOTAL OPERATING EXPENSES	<u>\$ 6,070,028</u>	<u>\$ (168,206)</u>	<u>\$ 5,901,820</u>	<u>\$ 872,380</u>	<u>\$ 6,774,200</u>
26	OPERATING INCOME (LOSS)	<u>\$ 797,742</u>		<u>\$ 965,789</u>		<u>\$ 2,353,526</u>

References:

Column (A): Company Schedule C-1
Column (B): SURR-RLM-7, Columns (B) Thru (U)
Column (C): Column (A) + Column (B)
Column (D): SURR-RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

**SURREBUTTAL
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 4,878,311	\$ -	\$ 4,878,311	\$ 2,260,117	\$ 7,138,428
2	Unmetered Water Revenues	63,022	-	63,022	-	63,022
3	Other Water Revenues	1,926,437	(161)	1,926,276	-	1,926,276
4	TOTAL OPERATING REVENUE	<u>\$ 6,867,770</u>	<u>\$ (161)</u>	<u>\$ 6,867,609</u>	<u>\$ 2,260,117</u>	<u>\$ 9,127,726</u>
	Operating Expenses:					
5	Labor	\$ 574,132	\$ (52,502)	\$ 521,630	\$ -	\$ 521,630
6	Purchased Water	649,372	-	649,372	-	649,372
7	Fuel & Power	845,394	-	845,394	-	845,394
8	Chemicals	56,331	-	56,331	-	56,331
9	Waste Disposal	-	-	-	-	-
10	Management Fees	1,036,634	(160,351)	876,283	-	876,283
11	Group Insurance	94,402	(425)	93,977	-	93,977
12	Pensions	35,066	-	35,066	-	35,066
13	Regulatory Expense	50,000	(19,340)	30,660	-	30,660
14	Insurance Other Than Group	116,992	(11,884)	105,108	-	105,108
15	Customer Accounting	123,069	-	123,069	-	123,069
16	Rents	15,455	(1,305)	14,150	-	14,150
17	General Office Expense	78,439	(6,245)	72,194	-	72,194
18	Miscellaneous	307,456	(85,828)	221,628	-	221,628
19	Other Maintenance	185,499	(800)	184,699	-	184,699
20	Depreciation & Amortization	1,992,814	(236,528)	1,756,286	-	1,756,286
21	Taxes Other Than Income	60,463	(18,309)	42,154	-	42,154
22	Property Taxes	330,552	(3,980)	326,572	-	326,572
23	Income Tax	(482,044)	429,292	(52,752)	872,380	819,628
24	Rounding	2				
25	TOTAL OPERATING EXPENSES	<u>\$ 6,070,028</u>	<u>\$ (168,206)</u>	<u>\$ 5,901,820</u>	<u>\$ 872,380</u>	<u>\$ 6,774,200</u>
26	OPERATING INCOME (LOSS)	<u>\$ 797,742</u>		<u>\$ 965,789</u>		<u>\$ 2,353,526</u>

References:

Column (A): Company Schedule C-1
Column (B): SURR-RLM-7, Columns (B) Thru (U)
Column (C): Column (A) + Column (B)
Column (D): SURR-RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	(A) DESCRIPTION	(B) COMPANY AS FILED	(C) ADJ #1	(D) ADJ #2	(E) ADJ #3	(F) ADJ #4	(G) ADJ #5	(H) ADJ #6	(I) ADJ #7	(J) ADJ #8	(K) ADJ #9	(L) ADJ #10
1	Revenues:											
2	Metered Water Revenues	\$ 4,878,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Unmetered Water Revenues	63,022	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	1,926,437	(161)	-	-	-	-	-	-	-	-	-
5	TOTAL OPERATING REV.	\$ 6,867,770	\$ (161)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Operating Expenses:											
7	Labor	\$ 574,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (41,127)	\$ (11,375)	\$ -	\$ -	\$ -
8	Purchased Water	649,372	-	-	-	-	-	-	-	-	-	-
9	Fuel & Power	845,394	-	-	-	-	-	-	-	-	-	-
10	Chemicals	56,331	-	-	-	-	-	-	-	-	-	-
11	Waste Disposal	-	-	-	-	-	-	-	-	-	-	-
12	Management Fees	1,036,634	(105,028)	(55,323)	-	-	-	-	-	-	-	-
13	Group Insurance	94,402	-	-	-	-	-	(380)	(46)	-	-	-
14	Pensions	35,066	-	-	-	-	-	-	-	-	-	-
15	Regulatory Expense	50,000	-	-	-	-	-	-	-	(19,340)	-	-
16	Insurance Other Than Group	116,992	(11,884)	-	-	-	-	-	-	-	-	-
17	Customer Accounting	123,069	-	-	-	-	-	-	-	-	-	-
18	Rents	15,455	(1,305)	-	-	-	-	-	-	-	-	-
19	General Office Expense	78,439	(5,593)	-	-	-	-	(619)	(33)	-	-	-
20	Miscellaneous	307,456	(7,977)	-	-	-	-	-	-	-	(70,351)	-
21	Other Maintenance	185,499	(800)	-	-	-	-	-	-	-	-	-
22	Depreciation & Amortization	1,992,814	-	-	(54,794)	(183,278)	1,544	-	-	-	-	-
23	Taxes Other Than Income	60,463	-	-	-	-	-	(17,453)	(856)	-	-	-
24	Property Taxes	330,552	-	-	-	-	-	-	-	-	-	-
25	Income Tax	(482,044)	-	-	-	-	-	-	-	-	-	-
26	Rounding	2	-	-	-	-	-	-	-	-	-	-
27	TOTAL OPERATING EXP.	\$ 6,070,028	\$ (132,587)	\$ (55,323)	\$ (54,794)	\$ (183,278)	\$ 1,544	\$ (59,579)	\$ (12,309)	\$ (19,340)	\$ (70,351)	\$ -
28	Company Rebuttal	6,070,028	(132,587)	(55,323)	90,411	(123,208)	1,544	(40,135)	(7,972)	-	(931)	INTENTIONALLY LEFT BLANK
29	Difference	\$ -	\$ -	\$ -	\$ (145,205)	\$ (60,070)	\$ -	\$ (19,444)	\$ (4,337)	\$ (19,340)	\$ (69,420)	

ADJUSTMENTS:

- 1 - RUCO Agrees With Company's Adjustment To The Corporate Allocation
- 2 - RUCO Agrees With Company's Write-Off
- 3 - RUCO And Company Disagree On The Amount Of The Amortization For The PHX Interconnect
- 4 - RUCO And Company Disagree On The Amount Of The Depreciation Expense
- 5 - RUCO Agrees With Company's Adjustment To The Amortization Of CIAC
- 6 - RUCO And Company Disagree On The Amount Of The Anthem Direct Payroll And Benefits
- 7 - RUCO And Company Disagree On The Amount Of The Corporate Allocated Payroll And Benefits
- 8 - RUCO And Company Disagree On The Amount Of Rate Case Expense
- 9 - RUCO And Company Disagree On The Amount Of Inappropriate Miscellaneous Expenses
- 10 - Wastewater District Adjustment Only

REFERENCE:

- Testimony, RLM And Schedule SURR-RLM-9
Testimony, RLM And Schedule SURR-RLM-9
Testimony, RLM And Schedule SURR-RLM-9
Testimony, RLM And Schedule SURR-RLM-11
Testimony, RLM And Schedule SURR-RLM-11
Testimony, RLM And Schedule SURR-RLM-10
Testimony, RLM And Schedule SURR-RLM-12

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.		(L)	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)	(V)
	DESCRIPTION	ADJ #11	ADJ #12	ADJ #13	ADJ #14	ADJ #15	ADJ #16	ADJ #17	ADJ #18	ADJ #19	ADJ #20	RUCO AS ADJT'D
1	Revenues:											
1	Metered Water Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,878,311
2	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	63,022
3	Other Water Revenues	-	-	-	-	-	-	-	-	-	-	1,926,276
4	TOTAL OPERATING REV.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,867,609</u>
5	Operating Expenses:											
5	Labor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 521,630
6	Purchased Water	-	-	-	-	-	-	-	-	-	-	649,372
7	Fuel & Power	-	-	-	-	-	-	-	-	-	-	845,394
8	Chemicals	-	-	-	-	-	-	-	-	-	-	56,331
9	Waste Disposal	-	-	-	-	-	-	-	-	-	-	-
10	Management Fees	-	-	-	-	-	-	-	-	-	-	876,283
11	Group Insurance	-	-	-	-	-	-	-	-	-	-	93,977
12	Pensions	-	-	-	-	-	-	-	-	-	-	35,066
13	Regulatory Expense	-	-	-	-	-	-	-	-	-	-	30,660
14	Insurance Other Than Group	-	-	-	-	-	-	-	-	-	-	105,108
15	Customer Accounting	-	-	-	-	-	-	-	-	-	-	123,069
16	Rents	-	-	-	-	-	-	-	-	-	-	14,150
17	General Office Expense	-	-	-	-	-	-	-	-	-	-	72,194
18	Miscellaneous	(7,500)	-	-	-	-	-	-	-	-	-	221,628
19	Other Maintenance	-	-	-	-	-	-	-	-	-	-	184,899
20	Depreciation & Amortization	-	-	-	-	-	-	-	-	-	-	1,756,286
21	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-	42,154
22	Property Taxes	-	(3,980)	-	-	-	-	-	-	-	-	326,572
23	Income Tax	-	-	429,292	-	-	-	-	-	-	-	(52,752)
24	Rounding	-	-	-	-	-	-	-	-	-	-	2
25	TOTAL OPERATING EXP.	<u>\$ (7,500)</u>	<u>\$ (3,980)</u>	<u>\$ 429,292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,901,822</u>
26	Company Rebuttal	-	67,365	285,186								6,154,378
27	Difference	<u>\$ (7,500)</u>	<u>\$ (71,345)</u>	<u>\$ 144,106</u>								<u>(252,556)</u>

ADJUSTMENTS:
11 - RUCO Disallows Pro Forma Expenses Budgeted For Conservation
12 - RUCO And Company Disagree On The Amount Of Property Tax Expense
13 - Income Tax
14 - 20 Intentional Left Blank

REFERENCE:
Testimony, RLM
Testimony, RLM
Testimony, RLM And Schedule SURR-RLM-13

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEPRECIATION RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ -	0.00%	\$ -
2	302000	Franchises	4,719,239	0.00%	-
5	303200	Land & Ld Rights SS	3,852,990	0.00%	-
6	304100	Struct & Imp SS	4,599,939	2.50%	114,998
7	305000	Collect & Impounding	370,979	1.67%	6,195
8	306000	Lake, River & Other Intakes	394,971	2.50%	9,874
9	307000	Wells & Springs	461,497	2.52%	11,630
11	303300	Land & Ld Rights P	20,000	0.00%	-
12	304200	Struct & Imp P	2,741,794	1.67%	45,788
14	311200	Pump Equip Electric	12,077,054	4.42%	533,806
16	311500	Pump Equip Other	4,822	4.42%	213
18	303500	Land & Ld Rights TD	-	0.00%	-
19	304300	Struct & Imp WT	1,044,916	1.67%	17,450
20	320100	WT Equip Non-Media	8,918,822	4.00%	356,753
23	304400	Struct & Imp TD	18,469	1.67%	308
24	330000	Dist Reservoirs & Standpipe	4,109,882	1.67%	68,635
25	331001	TD Mains Not Classified by	3,289,837	1.53%	50,335
26	331100	TD Mains 4in & Less	15,463,957	1.53%	236,599
27	331200	TD Mains 6in to 8in	5,972,278	1.53%	91,376
28	331300	TD Mains 10in to 16in	3,850,351	1.53%	58,910
30	333000	Services	1,728,092	2.48%	42,857
31	334100	Meters	730,372	2.51%	18,332
32	334200	Meter Installations	235,674	2.51%	5,915
33	335000	Hydrants	1,670,377	1.99%	33,241
36	303600	Land & Land Rights AG	-	0.00%	-
37	304510	Struct & Imp AG Cap Lease	-	1.68%	-
38	304600	Struct & Imp Offices	110,665	1.67%	1,848
39	304620	Struct & Imp Leasehold	6,883	1.67%	115
40	304700	Struct & Imp Store,Shop,Gar	-	0.00%	-
41	340100	Office Furniture & Equip	160,631	4.59%	7,373
42	340200	Comp & Periph Equip	2,848	4.59%	131
43	340300	Computer Software	-	0.00%	-
44	340330	Comp Software Other	-	0.00%	-
45	341100	Trans Equip Lt Duty Trks	108,500	25.00%	27,125
46	341200	Trans Equip Hvy Duty Trks	60,211	25.00%	15,053
47	341400	Trans Equip Other	17,286	25.00%	4,322
48	342000	Stores Equipment	-	0.00%	-
49	343000	Tools,Shop,Garage Equip	14,945	1.53%	229
50	344000	Laboratory Equipment	118,788	3.71%	4,407
51	345000	Power Operated Equipment	4,719	1.53%	72
52	346100	Comm Equip Non-Telephone	112,558	9.76%	10,986
53	346200	Comm Equip Telephone	22,846	9.76%	2,230
54	346300	Comm Equip Other	8,440	7.91%	668
55	347000	Misc Equipment	-	9.76%	-
56	SUB-TOTAL		\$ 77,025,632		\$ 1,777,772
CORPORATE AND CENTRAL ALLOCATED PLANT					
57	303600	Land & Land Rights AG	\$ -	0.00%	-
58	304510	Struct & Imp AG Cap Lease	-	1.68%	-
59	304600	Struct & Imp Offices	996	1.67%	17
60	304620	Struct & Imp Leasehold	6,887	1.67%	115
61	340100	Office Furniture & Equip	37,247	4.04%	1,505
62	340200	Comp & Periph Equip	7,895	15.89%	1,255
63	340300	Computer Software	59,255	37.71%	22,345
64	340330	Comp Software Other	1,282	37.71%	483
65	341100	Trans Equip Lt Duty Trks	24,083	28.05%	6,755
66	342000	Stores Equipment	-	3.92%	-
67	343000	Tools,Shop,Garage Equip	1,052	3.61%	38
68	344000	Laboratory Equipment	-	3.71%	-
69	345000	Power Operated Equipment	-	5.14%	-
70	346100	Comm Equip Non-Telephone	6,089	9.76%	594
71	346300	Comm Equip Other	(64)	7.91%	(5)
72	347000	Misc Equipment	2,621	0.00%	-
77	SUB-TOTAL		\$ 147,344		\$ 33,102
78	TOTAL		\$ 77,172,976		\$ 1,810,874
58	Amortization Of Phoenix Interconnect Regulatory Assets				\$ 54,795
59	Revised as Per Company Rebuttal Adjustment Amortization Of Contributions				(1,840)
60	Amortization Of Imputed Regulatory CIAC				(107,543)
61	TOTAL DEPRECIATION EXPENSE				\$ 1,756,286
62	Company As Filed				1,994,152
63	Difference				\$ (237,866)
64	RUCO Adjustment (See SURR-RLM-7, Column (E))				\$ (183,278)

References:

Column (A): Company Workpapers
Column (B): Company Workpapers
Column (C): Column (A) X Column (B)

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENTS NO. 6 AND NO. 7
NORMALIZE TEST-YEAR DIRECT PAYROLL AND PAYROLL BENEFITS

LINE NO.	DESCRIPTION	(A) ANTHEM DIRECT	(B) CORPORATE ALLOCATION
PAYROLL ADJUSTMENT			
1	RUCO Adjusted Anthem Water District Labor Expense	\$ 414,426	\$ 58,027
2	Company Total Normalized Anthem Water District Labor Expense As Filed	455,553	69,402
3	Difference	<u>\$ (41,127)</u>	<u>\$ (11,375)</u>
4	RUCO Payroll Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u>\$ (41,127)</u>	<u>\$ (11,375)</u>
401(K) ADJUSTMENT			
5	RUCO Adjusted Anthem Water District 401(K) Expense	\$ 8,684	\$ 1,148
6	Company Total Normalized Anthem Water District 401(K) Expense As Filed	9,303	1,181
7	Difference	<u>\$ (619)</u>	<u>\$ (33)</u>
8	RUCO Miscellaneous Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u>\$ (619)</u>	<u>\$ (33)</u>
GROUP INSURANCE ADJUSTMENT			
9	RUCO Adjusted Anthem Water District Group Insurance Expense	\$ 88,819	\$ 10,110
10	Company Total Normalized Anthem Water District Group Insurance Expense As Filed	89,199	10,156
11	Difference	<u>\$ (380)</u>	<u>\$ (46)</u>
12	RUCO Group Insurance Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u>\$ (380)</u>	<u>\$ (46)</u>
PAYROLL TAXES ADJUSTMENT			
13	RUCO Adjusted Anthem Water District Payroll Taxes Expense	\$ 33,535	\$ 4,589
14	Company Total Normalized Anthem Water District Payroll Taxes Expense As Filed	50,988	5,445
15	Difference	<u>\$ (17,453)</u>	<u>\$ (856)</u>
16	RUCO Taxes Other Than Income Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u>\$ (17,453)</u>	<u>\$ (856)</u>

Reference:

Column (A): RUCO Workpapers - "ANTHEM LABOR & 401(K) & PAY TAX" And "ANTHEM DIRECT GROUP INS."
Column (B): RUCO Workpapers - "CORP. LABOR & 401(K) & PAY TAX" And "CORP. GROUP INS."

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SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
RUCO ADDITONAL ADJUSTMENTS TO COMPANY'S MISCELLANEOUS EXPENSES

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
	Miscellaneous Expenses Removed		
1	Anthem Direct	RUCO Workpapers - "Misc. Exp.-Anthem"	\$ (59,472)
2	Corporate	RUCO Workpapers - "Misc. Exp.-Corporate"	(8,010)
3	Central Division	RUCO Workpapers - "Misc. Exp.-Central"	(2,868)
4	Total Miscellaneous Expenses Remove	Sum Of Lines 1 Thru 3	<u>\$ (70,351)</u>
5	RUCO Adjustment (See SURR-RLM-7, Column (J))	Line 4	<u><u>\$ (70,351)</u></u>

SUREBUTTAL WORKPAPERS
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
RUCO ADDITIONAL ADJUSTMENTS TO COMPANY'S MISCELLANEOUS EXPENSES - ANTHEM DIRECT

LINE NO	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	CATEGORY	AMOUNT	DESCRIPTION				COMPANY'S REBUTTAL RESPONSE
1	575350	Meals & Travel Deduct	52.07	20050217	RIGOBERTO CAMACHO	food	After hours damage repair
2	575350	Meals & Travel Deduct	9.96	20050317	JAMES A GROOMAN	food	Safety award lunch
3	575350	Meals & Travel Deduct	134.43	20050317	JAMES A GROOMAN	food	Safety award lunch
4	575350	Meals & Travel Deduct	74.49	SAFEWAY STORE	JAMES A GROOMAN	food	Safety award lunch
5	575350	Meals & Travel Deduct	6.64	SAFEWAY STORE	DAVID A WARD	food	Company sponsored safety milestone
6	575350	Meals & Travel Deduct	93.35	WM SUPERCENTER	DAVID A WARD	food	Company sponsored safety milestone
7	635000	Contr Svc-Other Maint WT	350.00	20041216	JEFFEREY A MARLOW	Cleaning Srvs in the sewerage	Repair at WWTP
8	635000	Contr Svc-Other Maint WT	13,024.00	Applied Diving Services Inc-RE	Irrigation pond cleaning	Supply of commercial personnel	Task now handled in-house
9	635000	Contr Svc-Other Maint WT	(0.31)	Applied Diving Services Inc-RE	Irrigation pond cleaning	Supply of commercial personnel	Task now handled in-house
10	635000	Contr Svc-Other Maint WT	21,732.00	DL Norton General Contracting	BEGAY DARIN	Supply of salary earners:Z	Not recurring
11	635000	Contr Svc-Other Maint WT	16,680.00	DL Norton General Contracting	ANTHEM FILTERME	Supply of salary earners:Z	Not recurring
12	635000	Contr Svc-Other Maint WT	1,938.00	Applied Diving Services Inc-RE	Upper Reservoir Cleaning	Supply of salary earners:Z	Recurring every few years
13	635000	Contr Svc-Other Maint WT	(43.00)	Applied Diving Services Inc-RE	Upper Reservoir Cleaning	Supply of salary earners:Z	Recurring every few years
14	575000	Misc Oper WVT	2,920.84	Pulte Homes The Communities of	Temp Effluent W	Installation works	Gain/Loss on disposition
15	575220	Community Relations	2,500.00	Anthem Community Council - REM	Anthem Days Sponsorship	Sales and marketing services	Corporate sponsorship of Anthem Days
16							
17	RUCO's	Expenses To Be Removed	\$ 59,472.47				
18							
19	RUCO's	Adjustment	<u>\$ (59,472)</u>				

SUREBUTTAL WORKPAPERS
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
RUCO ADDITIONAL ADJUSTMENTS TO COMPANY'S MISCELLANEOUS EXPENSES - ANTHEM DIRECT

LINE NO	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	CATEGORY	AMOUNT	DESCRIPTION				COMPANY'S REBUTTAL RESPONSE
1	575350	Meals & Travel Deduct	52.07	20050217	RIGOBERTO CAMACHO	food	After hours damage repair
2	575350	Meals & Travel Deduct	9.96	20050317	JAMES A GROOMAN	food	Safety award lunch
3	575350	Meals & Travel Deduct	134.43	20050317	JAMES A GROOMAN	food	Safety award lunch
4	575350	Meals & Travel Deduct	74.49	SAFEWAY STORE	JAMES A GROOMAN	food	Safety award lunch
5	575350	Meals & Travel Deduct	6.64	SAFEWAY STORE	DAVID A WARD	food	Company sponsored safety milestone
6	575350	Meals & Travel Deduct	93.35	WM SUPERCENTER	DAVID A WARD	food	Company sponsored safety milestone
7	635000	Contr Svc-Other Maint WT	350.00	20041216	JEFFEREY A MARLOW	Cleaning Srvs in the sewerage	Repair at WWTP
8	635000	Contr Svc-Other Maint WT	13,024.00	Applied Diving Services Inc-RE	Irrigation pond cleaning	Supply of commercial personnel	Task now handled in-house
9	635000	Contr Svc-Other Maint WT	(0.31)	Applied Diving Services Inc-RE	Irrigation pond cleaning	Supply of commercial personnel	Task now handled in-house
10	635000	Contr Svc-Other Maint WT	21,732.00	DL Norton General Contracting	BEGAY DARIN	Supply of salary earners:Z	Not recurring
11	635000	Contr Svc-Other Maint WT	16,680.00	DL Norton General Contracting	ANTHEM FILTERME	Supply of salary earners:Z	Not recurring
12	635000	Contr Svc-Other Maint WT	1,938.00	Applied Diving Services Inc-RE	Upper Reservoir Cleaning	Supply of salary earners:Z	Recurring every few years
13	635000	Contr Svc-Other Maint WT	(43.00)	Applied Diving Services Inc-RE	Upper Reservoir Cleaning	Supply of salary earners:Z	Recurring every few years
14	575000	Misc Oper WVT	2,920.84	Pulte Homes The Communities of	Temp Effluent W	Installation works	Gain/Loss on disposition
15	575220	Community Relations	2,500.00	Anthem Community Council - REM	Anthem Days Sponsorship	Sales and marketing services	Corporate sponsorship of Anthem Days
16							
17	RUCO's	Expenses To Be Removed	\$ 59,472.47				
18							
19	RUCO's	Adjustment	<u>\$ (59,472)</u>				

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. SURR-RLM-6, Column (C), L26 + L23	\$ 913,037
	LESS:		
2	Arizona State Tax	Line 11	9,523
3	Interest Expense	Note (A) Line 20	(1,049,704)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (127,144)
5	Federal Tax Rate	Sch. SURR-RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (43,229)</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 913,037
	LESS:		
8	Interest Expense	Note (A) Line 20	(1,049,704)
9	State Taxable Income	Line 7 - Line 8	\$ (136,667)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (9,523)</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (43,229)
13	State Income Tax Expense	Line 11	(9,523)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (52,752)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(482,044)
16	Total Income Tax Adjustmen	Line 14 - Line 15	<u>\$ 429,292</u>
17	RUCO Adjustment (See Sch. SURR-RLM-7, Column (N))	Line 16	<u>\$ 429,292</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. SURR-RLM-2, Col. (H), L17)	\$ 32,579,264
19	Weighted Cost Of Debt (SURR-RLM-16 Col. (F), L1)	3.22%
20	Interest Expense (L18 X L19)	<u>\$ 1,049,704</u>

SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	G-1 - 5/8" & 3/4"	51,069	2,742	53,811	\$ 19.29	\$ 1,037,828	
2	G-1 - 1"	36,408	1,133	37,541	\$ 33.94	1,274,303	
3	G-1 - 1.5"	709	104	813	\$ 78.11	63,505	
4	G-1 - 2"	218	-	218	\$ 102.03	22,194	
5	G-1 - 3"	9	3	12	\$ 195.37	2,344	
6	Total Customers	<u>88,412</u>	<u>3,982</u>	<u>92,395</u>			\$ 2,400,175
	Commodity Usage						
7	First Tier	309,833,000	15,500,471	325,333,471	\$ 1.44	\$ 469,069	
8	Second Tier	516,628,000	20,821,422	537,449,422	\$ 2.11	1,135,177	
9	Third Tier	75,909,000	1,542,000	77,451,000	\$ 3.18	246,543	
10	Total Usage	<u>902,370,000</u>	<u>37,863,893</u>	<u>940,233,893</u>			\$ 1,850,789
11	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 4,250,963</u>
COMMERCIAL CUSTOMERS							
12	G-1 - 5/8" & 3/4"	51	3	54	\$ 32.77	\$ 1,769	
13	G-1 - 5/8" & 3/4"	184	9	193	\$ 32.77	6,324	
14	G-1 - 1"	71	3	74	\$ 57.67	4,268	
15	G-1 - 1"	209	10	219	\$ 57.67	12,630	
16	G-1 - 1.5"	26	1	27	\$ 132.71	3,583	
17	G-1 - 1.5"	264	13	277	\$ 132.71	36,762	
18	G-1 - 2"	92	4	96	\$ 173.35	16,641	
19	G-1 - 2"	810	39	849	\$ 173.35	147,171	
20	G-1 - 3"	115	6	121	\$ 331.95	40,165	
21	G-1 - 3"	307	15	322	\$ 331.95	106,886	
22	Total Customers	<u>2,130</u>	<u>102</u>	<u>2,232</u>			\$ 376,201
	Commodity Usage						
23	First Tier	120,878,000	11,935,387	132,813,387	\$ 2.11	\$ 280,523	
24	Second Tier	106,626,905	7,894,614	114,521,519	\$ 3.18	364,546	
25	Total Usage	<u>227,504,905</u>	<u>19,830,001</u>	<u>247,334,906</u>			\$ 645,069
26	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 1,021,270</u>
IRRIGATION CUSTOMERS							
27	Total Customers	<u>395</u>	<u>28</u>	<u>423</u>	No Charge		
	Commodity Usage						
28	All Usage	688,712,000	32,163,000	720,875,000	\$ 1.43	\$ 1,030,851	
29	Total Usage	<u>688,712,000</u>	<u>32,163,000</u>	<u>720,875,000</u>			\$ 1,030,851
30	TOTAL IRRIGATION CUSTOMERS REVENUE						<u>\$ 1,030,851</u>
WHOLESALE CUSTOMERS							
31	PI-1 OWU - All	37	(3)	34	No Charge		
	Commodity Usage						
32	All Usage	124,738,000	110,095,370	234,833,370	\$ 3.36	\$ 787,979	
33	Total Usage	<u>124,738,000</u>	<u>110,095,370</u>	<u>234,833,370</u>			\$ 787,979
34	TOTAL WHOLESALE CUSTOMERS REVENUE						<u>\$787,979</u>
PRIVATE FIRE PROTECTION CUSTOMERS							
35	FP-1 All - 4"	126	-	126	\$ 63.21	\$ 7,980	
36	FP-1 All - 6"	340	-	340	\$ 94.82	32,233	
37	FP-1 All - 8"	73	-	73	\$ 95.66	6,991	
38	Total Customers	<u>539</u>		<u>539</u>			\$ 47,203
39	Commodity Usage	124,738,000		124,738,000	No Charge		
40	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 47,203</u>
41	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 7,138,267</u>
42	Unmetered Water Revenues						63,022
43	Other Water Revenues						1,926,437
44	ADJUSTED RUCO PORPOSED REVENUE PER BILL COUNT						<u>9,127,726</u>
45	RUCO PROPOSED ANNUAL REVENUE (SURR-RLM-1, Column (B), Line10						\$ 9,127,726
46	Difference						\$ 0

SURREBUTTAL
TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 3,172,855	70.20%	\$ 5,670,354	59.75%	\$ 4,250,963	59.55%
2	OTHER	\$ 1,346,746	29.80%	\$ 3,819,254	40.25%	\$ 2,887,304	40.45%
3	TOTAL	\$ 4,519,601	100.00%	\$ 9,489,608	100.00%	\$ 7,138,267	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	2,016,921	44.63%	\$ 3,331,634	35.11%	\$ 2,823,579	39.56%
5	VARIABLE REVENUE	2,502,680	55.37%	\$ 6,157,973	64.89%	\$ 4,314,688	60.44%
6	TOTAL	4,519,601	100.00%	\$ 9,489,608	100.00%	\$ 7,138,267	100.00%
RES. G-1 (5/8" X 3/4") RATE DESIGN							
7	BASIC MONTHLY CHARGE	\$ 15.00		\$ 25.75		\$ 19.29	
9	COMMODITY CHARGE						
	First 4,000 Gallons	\$ 1.1300		\$ 1.9250		\$ 1.4418	
	Next 10,000 Gallons	\$ 1.7000		\$ 2.8200		\$ 2.1122	
	Over 14,000 Gallons	\$ 2.0400		\$ 4.2500		\$ 3.1832	
RESIDENTIAL BILL COMPARISONS							
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 9,022 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
10			25.00%	\$ 17.55	\$ 22.54	\$ 4.99	28.43%
11			50.00%	\$ 20.39	\$ 26.13	\$ 5.74	28.17%
12			100.00%	\$ 28.06	\$ 35.66	\$ 7.60	27.10%
13			150.00%	\$ 35.73	\$ 45.19	\$ 9.46	26.49%
14			200.00%	\$ 44.77	\$ 59.05	\$ 14.28	31.89%

**SURREBUTTAL
COST OF CAPITAL**

LINE NO.	DESCRIPTION	(A) CAPITALIZ'N PER COMPANY	(B) RUCO ADJM'TS	(C) RUCO ADJUSTED CAPITALIZ'N	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	DEBT	\$ 25,860,370	\$ -	\$ 25,860,370	60.00%	5.37%	3.22%
2	PREFERRED STOCK	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	17,240,246	-	17,240,246	40.00%	10.01%	4.00%
4	TOTAL CAPITALIZATION	<u>\$ 43,100,616</u>	<u>\$ -</u>	<u>\$ 43,100,616</u>	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL						<u><u>7.22%</u></u>

References:

Columns (A) Thru (F): Testimony, WAR

SURREBUTTAL
TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
SURR-RLM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
SURR-RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TESTIMONY		RATE BASE ADJUSTMENT NO. 6 - WASTE DISPOSAL AT NW VALLEY TREATMENT PLANT
SURR-RLM-5	1	RATE BASE ADJUSTMENT NO. 7 - ALLOWANCE FOR WORKING CAPITAL
SURR-RLM-6	1	OPERATING INCOME
SURR-RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURR-RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR DEPRECIATION EXPENSE
SURR-RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 6 - ANTHEM DIRECT PAYROLL AND BENEFITS
SURR-RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 7 - CORPORATE ALLOCATED PAYROLL AND BENEFITS
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE
SURR-RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 9 - INAPPROPRIATE MISCELLANEOUS EXPENSES
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 10 - O & M COSTS FOR WASTE DISPOSAL AT NW VALLEY PLANT
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 12 - PROPERTY TAX COMPUTATION
SURR-RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 13 - INCOME TAX EXPENSE
SURR-RLM-14	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR-RLM-15	1	TYPICAL BILL ANALYSIS
SURR-RLM-16	1	COST OF CAPITAL

**SURREBUTTAL
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 24,636,158	\$ 18,895,465
2	Adjusted Operating Income (Loss)	\$ 517,051	\$ 636,138
3	Current Rate Of Return (L2 / L1)	2.10%	3.37%
4	Required Operating Income (L5 X L1)	\$ 2,052,194	\$ 1,365,008
5	Required Rate Of Return On Fair Value Rate Base	8.33%	7.22%
6	Operating Income Deficiency (L4 - L2)	\$ 1,535,143	\$ 728,870
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 2,500,188	\$ 1,187,063
9	Adjusted Test Year Revenue	\$ 6,135,801	\$ 6,135,801
10	Proposed Annual Revenue (L8 + L9)	\$ 8,635,989	\$ 7,322,864
11	Required Percentage Increase In Revenue (L8 / L9)	40.75%	19.35%
12	Rate Of Return On Common Equity	11.75%	10.01%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule SURR-RLM-2, SURR-RLM-6, And SURR-RLM-16

SURREBUTTAL
REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3860)			
3	Subtotal (L1 + L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	\$ 1,365,008			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	636,138			
13	Required Increase In Operating Income (L11 - L12)		\$ 728,870		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 475,371			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	17,178			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 458,193		
17	Total Required Increase In Revenue (L13 + L16)		\$ 1,187,063		
	RUCO				
	Recommended				
18	Revenue (Sch. RLM-1, Col. (B), L10)		\$ 7,322,864		
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L24)		(5,482,484)		
20	Synchronized Interest (Col. (C), L37)		(608,812)		
21	Arizona Taxable Income (L18 + L19 + L20)		\$ 1,231,568		
22	Arizona State Income Tax Rate		6.9680%		
23	Arizona Income Tax (L21 X L22)			\$ 85,816	
24	Fed. Taxable Income (L21 - L23)		\$ 1,145,752		
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%		\$ 7,500		
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%		6,250		
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%		8,500		
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%		91,650		
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%		275,656		
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 389,556	
31	Combined Federal And State Income Tax (L23 + L30)			\$ 475,371	
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)			\$ 17,178	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L22)			\$ 458,193	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)		\$ 18,895,465		
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)		3.22%		
37	Synchronized Interest (L35 X L36)		\$ 608,812		

SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJM'T NO. 1	(C) RUCO ADJM'T NO. 2	(D) RUCO ADJM'T NO. 3	(E) RUCO ADJM'T NO. 4	(F) RUCO ADJM'T NO. 5	(G) RUCO ADJM'T NO. 6	(H) RUCO ADJM'T NO. 7	(I) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 82,723,060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (131,432)	\$ -	\$ 82,591,628
2	Accumulated Depreciation	(6,175,116)	-	-	-	(1,047,620)	-	46,161	-	(7,176,575)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 76,547,944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,047,620)</u>	<u>\$ -</u>	<u>\$ (85,271)</u>	<u>\$ -</u>	<u>\$ 75,415,053</u>
4	Advances In Aid Of Const.	\$ (42,956,227)	\$ (58,864)	\$ 130,133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (42,884,958)
5	Contribution In Aid Of Const.	\$ (6,305,605)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,305,605)
6	Accumulated Amortization Of CIAC	82,882	-	-	-	-	-	-	-	82,882
7	NET CIAC (L5 + L6)	<u>\$ (6,222,723)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,222,723)</u>
8	Imputed Regulatory Advances	\$ (2,930,015)	\$ -	\$ -	\$ (4,515,434)	\$ -	\$ -	\$ -	\$ -	\$ (7,445,449)
9	Imputed Regulatory Contributions	\$ (212,488)	\$ -	\$ -	\$ (72,770)	\$ -	\$ -	\$ -	\$ -	\$ (285,258)
10	Customer Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 403,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,083
12	Investment Tax Credits	\$ (16,377)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,377)
13	Allowance For Working Capital	\$ 22,961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (90,868)	\$ (67,907)
14	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 13)	<u>\$ 24,636,158</u>	<u>\$ (58,864)</u>	<u>\$ 130,133</u>	<u>\$ (4,588,204)</u>	<u>\$ (1,047,620)</u>	<u>\$ -</u>	<u>\$ (85,271)</u>	<u>\$ (90,868)</u>	<u>\$ 18,895,465</u>
15	Company Rebuttal Rate Base Adjustments	\$ 24,636,158	\$ (58,864)	\$ 130,133	\$ (4,588,204)	\$ (1,047,620)		\$ -	\$ -	\$ 19,071,603
16	Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (85,271)</u>	<u>\$ (90,868)</u>	<u>\$ (176,138)</u>

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Adjustment No. 1 - RUCO Agrees With Company Adjustment To AIAC
Column (C): Adjustment No. 2 - RUCO Agrees With Company Adjustment To AIAC
Column (D): Adjustment No. 3 - Company Agrees With RUCO Removal Of Post Test-Year AIAC And CIAC
Column (E): Adjustment No. 4 - RUCO Agrees With Company Adjustment To Accumulated Depreciation
Column (F): Adjustment No. 5 - Intentionally Left Blank (Water District Adjustment Only)
Column (G): Adjustment No. 6 - Company Disagrees With RUCO Adjustment For Sewer Treated At The North West Valley Treatment Plant
Column (H): Adjustment No. 7 - Company Disagrees With RUCO Allowance For Working Capital (See SURR-RLM-5, Page 1)
Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

Arizona-Amercian Water Company
Docket No. WS-01303A-06-0403
Test Year Ended December 31, 2005

Anthem/Agua Fria Wastewater District
Schedule SURR-RLM-5
Page 1 of 2

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 7
ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 7,648	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	7,648	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 15,313	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	15,313	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ -	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(90,868)	Schedule SURR-RLM-5, Page 2
9	Adjustment	\$ (90,868)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See SURR-RLM-2, Column (H))	\$ (90,868)	Sum Lines 3, 6 & 9

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 7 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 504,984	\$ -	\$ 504,984	12.00	\$ 6,059,808
3	Fuel & Power	453,018	-	453,018	31.70	14,360,671
4	Chemicals	98,672	-	98,672	33.40	3,295,645
5	Waste Disposal	163,269	-	163,269	30.00	4,898,070
6	Management Fees	827,789	-	827,789	(3.88)	(3,211,821)
7	Group Insurance	88,770	-	88,770	(4.64)	(411,893)
8	Pensions	27,724	-	27,724	45.00	1,247,580
9	Insurance Other Than Group	92,795	-	92,795	45.00	4,175,775
10	Customer Accounting	101,712	-	101,712	6.83	694,693
11	Rents	52,821	-	52,821	(10.68)	(564,128)
12	Other Operating Expenses	496,837	-	496,837	30.00	14,905,110
13	Taxes Other Than Income	52,515	-	52,515	15.65	821,860
14	Property Taxes	348,574	-	348,574	212.50	74,071,975
15	Income Tax	(237,148)	712,519	475,371	42.04	19,984,615
16	Interest	-	608,812	608,812	106.52	64,850,641
17	Total Appropriate Operating Expenses	<u>\$ 3,072,332</u>	<u>\$ 1,321,331</u>	<u>\$ 4,393,663</u>		<u>\$ 205,178,599</u>
18	Expense Lag		Line 17, Col. (E) / (C)	46.70		
19	Revenue Lag		Company Workpapers	<u>39.15</u>		
20	Net Lag		Line 19 - Line 18	(7.55)		
21	RUCO Adjusted Expenses		Col. (C), Line 17	<u>\$ 4,393,663</u>		
22	Cash Working Capital		Line 20 X Line 21 / 365 Days	<u>(90,868)</u>		
23	Company As Filed		Co. Schedule B-5, Page 1	-		
24	Difference		Line 22 - Line 23	<u>\$ (90,868)</u>		
25	ADJUSTMENT (See SURR-RLM-5, Pg 1, L 10)		Line 24	<u>\$ (90,868)</u>		

References:

Column (A): - Company Schedule C-1, Revised
Column (B): RUCO Operating Income Adjustments (See Schedule SURR-RLM-7)
Column (C): Column (A) + (B)
Column (D): RUCO Post-Hearing Position Filed In Arizona-American Mohave Water District As Per Schedule TJC-5, Page 2 Column (B)
Column (E): Column (C) X Column (D)

**SURREBUTTAL
OPERATING INCOME**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Sewer Revenues	\$ 4,483,353	\$ -	\$ 4,483,353	\$ 1,187,063	\$ 5,670,416
2	Other Revenues	1,652,448	-	1,652,448	-	1,652,448
3	TOTAL OPERATING REVENUE	<u>\$ 6,135,801</u>	<u>\$ -</u>	<u>\$ 6,135,801</u>	<u>\$ 1,187,063</u>	<u>\$ 7,322,864</u>
	Operating Expenses:					
4	Labor	\$ 504,984	\$ (53,646)	\$ 451,338	\$ -	\$ 451,338
5	Purchased Water	-	-	-	-	-
6	Fuel & Power	453,018	-	453,018	-	453,018
7	Chemicals	98,672	-	98,672	-	98,672
8	Waste Disposal	163,269	28,507	191,776	-	191,776
9	Management Fees	827,789	(130,115)	697,674	-	697,674
10	Group Insurance	88,770	-	88,770	-	88,770
11	Pensions	27,724	-	27,724	-	27,724
12	Regulatory Expense	50,000	(19,340)	30,660	-	30,660
13	Insurance Other Than Group	92,795	(9,740)	83,055	-	83,055
14	Customer Accounting	101,712	-	101,712	-	101,712
15	Rents	52,821	(1,070)	51,751	-	51,751
16	General Office Expense	60,685	(4,583)	56,102	-	56,102
17	Miscellaneous	276,619	(18,180)	258,439	-	258,439
18	Maintenance Expense	159,533	(2,247)	157,286	-	157,286
19	Depreciation & Amortization	2,496,417	(55,310)	2,441,107	-	2,441,107
20	Taxes Other Than Income	52,515	(14,455)	38,060	-	38,060
21	Property Taxes	348,574	(93,234)	255,340	-	255,340
22	Income Tax	(237,148)	254,326	17,178	458,193	475,371
23						
24	TOTAL OPERATING EXPENSES	<u>\$ 5,618,749</u>	<u>\$ (119,086)</u>	<u>\$ 5,499,663</u>	<u>\$ 458,193</u>	<u>\$ 5,957,856</u>
25	OPERATING INCOME (LOSS)	<u>\$ 517,053</u>		<u>\$ 636,138</u>		<u>\$ 1,365,008</u>

References:

Column (A): Company Schedule C-1
Column (B): SURR-RLM-7, Columns (B) Thru (U)
Column (C): Column (A) + Column (B)
Column (D): SURR-RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8	(J) ADJ #9	(K) ADJ #10
	Revenues:											
1	Sewer Revenues	\$ 4,483,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	1,652,448	-	-	-	-	-	-	-	-	-	-
3	TOTAL OPR'G REV.	<u>\$ 6,135,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Operating Expenses:											
4	Labor	\$ 504,984	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (44,592)	\$ (9,054)	\$ -	\$ -	\$ -
5	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
6	Fuel & Power	453,018	-	-	-	-	-	-	-	-	-	-
7	Chemicals	98,672	-	-	-	-	-	-	-	-	-	-
8	Waste Disposal	163,269	-	-	-	-	-	-	-	-	-	28,507
9	Management Fees	827,789	(86,077)	(44,038)	-	-	-	-	-	-	-	-
10	Group Insurance	88,770	-	-	-	-	-	-	-	-	-	-
11	Pensions	27,724	-	-	-	-	-	-	-	-	-	-
12	Regulatory Expense	50,000	-	-	-	-	-	-	-	(19,340)	-	-
13	Insurance Other Than Group	92,795	(9,740)	-	-	-	-	-	-	-	-	-
14	Customer Accounting	101,712	-	-	-	-	-	-	-	-	-	-
15	Rents	52,821	(1,070)	-	-	-	-	-	-	-	-	-
16	General Office Expense	60,685	(4,583)	-	-	-	-	-	-	-	-	-
17	Miscellaneous	276,619	(6,475)	-	-	-	-	-	-	-	(11,705)	-
18	Maintenance Expense	159,533	(655)	-	-	-	-	(1,592)	-	-	-	-
19	Depreciation & Amortization	2,496,417	-	-	-	677	(55,987)	-	-	-	-	-
20	Taxes Other Than Income	52,515	-	-	-	-	-	(13,774)	(681)	-	-	-
21	Property Taxes	348,574	-	-	-	-	-	-	-	-	-	-
22	Income Tax	(237,148)	-	-	-	-	-	-	-	-	-	-
23	TOTAL OPR'G EXP.	<u>\$ 5,618,749</u>	<u>\$ (108,600)</u>	<u>\$ (44,038)</u>	<u>\$ -</u>	<u>\$ 677</u>	<u>\$ (55,987)</u>	<u>\$ (59,958)</u>	<u>\$ (9,735)</u>	<u>\$ (19,340)</u>	<u>\$ (11,705)</u>	<u>\$ 28,507</u>
24	Company Rebuttal	5,618,749	(108,600)	(44,038)	INTENTIONALLY	21,881	(55,987)	(35,644)	(5,967)	-	-	-
25	Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	LEFT BLANK	<u>\$ (21,204)</u>	<u>\$ -</u>	<u>\$ (24,314)</u>	<u>\$ (3,768)</u>	<u>\$ (19,340)</u>	<u>\$ (11,705)</u>	<u>\$ 28,507</u>

ADJUSTMENTS:

- 1 - RUCO Agrees With Company's Adjustment To The Corporate Allocation
- 2 - RUCO Agrees With Company's Write-Off
- 3 - Water District Adjustment Only
- 4 - RUCO And Company Disagree On The Amount Of The Depreciation Expense
- 5 - RUCO Agrees With Company's Adjustment To The Amortization Of CIAC
- 6 - RUCO And Company Disagree On The Amount Of The Anthem Direct Payroll And Benefits
- 7 - RUCO And Company Disagree On The Amount Of The Corporate Allocated Payroll And Benefits
- 8 - RUCO And Company Disagree On The Amount Of Rate Case Expense
- 9 - RUCO And Company Disagree On The Amount Of Inappropriate Miscellaneous Expenses
- 10 - Company Disagrees With O & M Costs Of Sewer Treated At The NW Valley Treatment Plant

REFERENCE:

Testimony, RLM And Schedule SURR-RLM-9
Testimony, RLM And Schedule SURR-RLM-9
Testimony, RLM And Schedule SURR-RLM-11
Testimony, RLM And Schedule SURR-RLM-11
Testimony, RLM
Testimony, RLM
Testimony, RLM

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) ADJ #17	(S) ADJ #18	(T) ADJ #19	(U) ADJ #20	(V) RUCO AS ADJT'D
	Revenues:											
1	Sewer Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,483,353
2	Other Revenues	-	-	-	-	-	-	-	-	-	-	\$ 1,652,448
3	TOTAL OPR'G REV.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,135,801</u>
	Operating Expenses:											
4	Labor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 451,338
5	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
6	Fuel & Power	-	-	-	-	-	-	-	-	-	-	453,018
7	Chemicals	-	-	-	-	-	-	-	-	-	-	98,672
8	Waste Disposal	-	-	-	-	-	-	-	-	-	-	191,776
9	Management Fees	-	-	-	-	-	-	-	-	-	-	697,674
10	Group Insurance	-	-	-	-	-	-	-	-	-	-	88,770
11	Pensions	-	-	-	-	-	-	-	-	-	-	27,724
12	Regulatory Expense	-	-	-	-	-	-	-	-	-	-	30,660
13	Insurance Other Than Group	-	-	-	-	-	-	-	-	-	-	83,055
14	Customer Accounting	-	-	-	-	-	-	-	-	-	-	101,712
15	Rents	-	-	-	-	-	-	-	-	-	-	51,751
16	General Office Expense	-	-	-	-	-	-	-	-	-	-	56,102
17	Miscellaneous	-	-	-	-	-	-	-	-	-	-	258,439
18	Maintenance Expense	-	-	-	-	-	-	-	-	-	-	157,286
19	Depreciation & Amortization	-	-	-	-	-	-	-	-	-	-	2,441,107
20	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-	38,060
21	Property Taxes	-	(93,234)	-	-	-	-	-	-	-	-	255,340
22	Income Tax	-	-	254,326	-	-	-	-	-	-	-	17,178
		<u>-</u>	<u>-</u>	<u>254,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
23	TOTAL OPR'G EXP.	<u>\$ -</u>	<u>\$ (93,234)</u>	<u>\$ 254,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,499,663</u>
24	Company Rebuttal	INTENTIONALLY LEFT	(14,730)	204,616								5,580,280
25	Difference	BLANK	<u>\$ (78,504)</u>	<u>\$ 49,710</u>								<u>(80,617)</u>

ADJUSTMENTS:

11 - Water District Adjustment Only
12 - RUCO And Company Disagree On The Amount Of Property Tax Expense
13 - Income Tax
14 - 20 Intentionally Left Blank

REFERENCE:

Testimony, RLM
Testimony, RLM And Schedule SURR-RLM-13

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PORPOSED DEPRECIATION RATE	(C) TEST YEAR DEPREC'N EXPENSE
1		Organization	\$ -	0.00%	\$ -
2	304100	Struct & Imp SS	11,726	2.50%	293
3	304510	Struct & Imp AG Cap Lease	-	0.00%	-
4	304600	Struct & Imp Offices	-	4.63%	-
5	304620	Struct & Imp Leasehold	-	4.63%	-
6	340100	Office Furniture & Equip	-	4.04%	-
7	340200	Comp & Periph Equip	16,957	0.00%	-
8	340300	Computer Software	-	0.00%	-
9	340330	Comp Software Other	-	0.00%	-
10	341100	Trans Equip Lt Duty Trks	-	0.00%	-
11	341200	Trans Equip Hvy Duty Trks	60,471	25.00%	15,118
12	341400	Trans Equip Other	8,352	25.00%	2,088
13	342000	Stores Equipment	-	0.00%	-
14	343000	Tools,Shop,Garage Equip	30,542	4.47%	1,365
15	346100	Comm Equip Non-Telephone	-	9.76%	-
16	346200	Comm Equip Telephone	-	0.00%	-
17	346300	Comm Equip Other	-	0.00%	-
18	347000	Misc Equipment	-	0.00%	-
19	352000	WW Franchises	495,058	0.00%	-
20	353200	WW Land & Ld Rights Coll	351,687	0.00%	-
21	353500	WW Land & Ld Rights Gen	133,735	0.00%	-
22	354200	WW Struct & Imp Coll	754,218	2.50%	18,855
23	354400	WW Struct & Imp TDP	428,570	0.00%	-
24	354500	WW Struct & Imp Gen	10,148,989	1.67%	169,488
25	360000	WW Collection Sewers Forced	2,610,305	2.04%	53,250
26	361100	WW Collecting Mains	28,778,867	2.04%	587,089
27	362000	WW Special Coll Struct	140,048	8.40%	11,764
28	363000	WW Services Sewer	3,684,102	2.04%	75,156
29	364000	WW Flow Measuring Devices	133,208	5.42%	7,220
30	370000	WW Receiving Wells	184,940	5.42%	10,024
31	371100	WW Pump Equip Elect	1,643,593	5.42%	89,083
32	371200	WW Pump Equip Oth Pwr	3,463	5.42%	188
33	380000	WW TD Equipment	882,423	5.00%	44,121
34	380000	WW TD Equipment	-	5.00%	-
35	380050	WW TD Equip Grit Removal	9,376,478	5.00%	468,824
36	380100	WW Equip Sed Tanks/Acc	2,068,199	5.00%	103,410
37	380250	WW TD Equip Slidge Dig Trnk	2,044,264	5.00%	102,213
38	380300	WW TD Equip Slidge Dry/Filt	11,210,946	5.00%	560,547
39	380500	WW TD Equip Chem Trmt Plt	1,054,767	5.00%	52,738
40	380600	WW TD Equip Oth Disp	821,524	5.00%	41,076
41	389100	WW Oth Plt & Misc Equip Int	998,081	0.00%	-
42	390000	WW Office Furniture & Equip	31,682	4.59%	1,454
43	393000	WW Tool Shop & Garage Equip	5,621	4.47%	251
44	394000	WW Laboratory Equipment	40,971	3.71%	1,520
45	395000	WW Power Operated Equip	1,017,136	5.88%	59,808
46	396000	WW Communication Equip	857,647	10.30%	88,338
47	398000	WW Other Tangible Plant	2,354,058	0.00%	-
48	335000	Agua Fria Hydrants	-	0.00%	-
49		SUB-TOTAL PLANT IN SERVICE	<u>82,382,628</u>		<u>2,565,281</u>
50		CORPORATE AND CENTRAL ALLOCATED PLANT			
51	353500	WW Land & Ld Rights Gen	\$ -	0.00%	-
52	304510	Struct & Imp AG Cap Lease	-	0.00%	-
53	304600	Struct & Imp Offices	1,413	4.63%	65
54	304620	Struct & Imp Leasehold	9,768	4.63%	452
55	340100	Office Furniture & Equip	52,831	4.04%	2,134
56	340200	Comp & Periph Equip	11,199	15.89%	1,779
57	340300	Computer Software	84,048	37.71%	31,694
58	340330	Comp Software Other	1,818	37.71%	686
59	341100	Trans Equip Lt Duty Trks	34,166	25.00%	8,541
60	342000	Stores Equipment	-	0.00%	-
61	343000	Tools,Shop,Garage Equip	1,492	3.61%	54
62	346100	Comm Equip Non-Telephone	8,636	9.76%	843
63	346300	Comm Equip Other	(90)	7.91%	(7)
64	347000	Misc Equipment	3,719	0.00%	-
65	394000	WW Laboratory Equipment	-	0.00%	-
66	395000	WW Power Operated Equip	-	0.00%	-
67		SUB-TOTAL PLANT IN SERVICE	<u>209,000</u>		<u>46,243</u>
68		TOTAL WASTEWATER PLANT IN SERVICE	<u>\$ 82,591,628</u>		<u>\$ 2,611,524</u>
69	Less:	Amortization Of CIAC			\$ (128,634)
70		Amortization Of Imputed Regulatory CIAC			(47,220)
71		TOTAL DEPRECIATION EXPENSE (Sum Of Lines 68 Thru 70)			<u>\$ 2,435,670</u>
72		Company Test Year Depreciation Expense As Filed (Co. Sch. C-1)			2,610,847
73		Increase Of Depreciation Expense (Line 71 - Line 72)			<u>\$ 677</u>
74	References:	RUCO Adjustment (Line 73) (See SURR-RLM-7, Column (E))			<u>\$ 677</u>
		Column (A): Company Workpapers			
		Column (B): Company Workpapers			
		Column (C): Column (A) X Column (B)			

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENTS NO. 6 AND 7
NORMALIZE TEST-YEAR DIRECT PAYROLL AND PAYROLL BENEFITS

LINE NO.	DESCRIPTION	(A) ANTHEM DIRECT	(B) CORPORATE ALLOCATION
PAYROLL ADJUSTMENT			
1	RUCO Adjusted Anthem Wastewater District Labor Expense	\$ 358,945	\$ 46,201
2	Company Total Normalized Anthem Wastewater District Labor Expense As Filed	403,537	55,255
3	Difference	<u>\$ (44,592)</u>	<u>\$ (9,054)</u>
4	RUCO Payroll Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u><u>\$ (44,592)</u></u>	<u><u>\$ (9,054)</u></u>
401(K) ADJUSTMENT			
5	RUCO Adjusted Anthem Wastewater District 401(K) Expense	\$ 7,511	\$ 914
6	Company Total Normalized Anthem Wastewater District 401(K) Expense As Filed	9,103	914
7	Difference	<u>\$ (1,592)</u>	<u>\$ -</u>
8	RUCO Miscellaneous Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u><u>\$ (1,592)</u></u>	<u><u>\$ -</u></u>
GROUP INSURANCE ADJUSTMENT			
9	RUCO Adjusted Anthem Wastewater District Group Insurance Expense	\$ -	\$ -
10	Company Total Normalized Anthem Wastewater District Group Insurance Expense As Filed	-	-
11	Difference	<u>\$ -</u>	<u>\$ -</u>
12	RUCO Group Insurance Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
PAYROLL TAXES ADJUSTMENT			
13	RUCO Adjusted Anthem Wastewater District Payroll Taxes Expense	\$ 30,633	\$ 3,654
14	Company Total Normalized Anthem Wastewater District Payroll Taxes Expense As Filed	44,407	4,335
15	Difference	<u>\$ (13,774)</u>	<u>\$ (681)</u>
16	RUCO Taxes Other Than Income Adjustment (See SURR-RLM-7, Columns (G) & (H))	<u><u>\$ (13,774)</u></u>	<u><u>\$ (681)</u></u>

Reference:

Column (A): RUCO Workpapers - "ANTHEM LABOR & 401(K) & PAY TAX" And "ANTHEM DIRECT GROUP INS."
Column (B): RUCO Workpapers - "CORP. LABOR & 401(K) & PAY TAX" And "CORP. GROUP INS."

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SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
RUCO ADDITONAL ADJUSTMENTS TO COMPANY'S MISCELLANEOUS EXPENSES

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
	Miscellaneous Expenses Removed		
1	Anthem Direct	RUCO Workpapers - "Misc. Exp.-Anthem"	\$ (826)
2	Corporate	RUCO Workpapers - "Misc. Exp.-Corporate"	(8,010)
3	Central Division	RUCO Workpapers - "Misc. Exp.-Central"	(2,868)
4	Total Miscellaneous Expenses Remove	Sum Of Lines 1 Thru 3	<u>\$ (11,705)</u>
5	RUCO Adjustment (See SURR-RLM-7, Column (J))	Line 4	<u>\$ (11,705)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
REMOVAL OF ANTHEM DIRECT INAPPROPRIATE MISCELLANEOUS EXPENSES**

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
LINE NO.	DESCRIPTION	DOC TYPE DESCRIPTION	AMOUNT	1ST EXPLANATION	2ND EXPLANATION	P CODE	COMPANY REBUTTAL RESPONSE
1	M & S Oper SS	Purchase Card	\$150.25	DANONE WATERS OF NORTH AM	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
2	M & S Oper WT	Purchase Card	\$101.43	DANONE WATERS OF NORTH AM	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
3	Contr Svc-Lab Testing Oper WT	Purchase Card	\$110.20	WATER DELSV 800444PURE	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
4	Misc Oper WT	Purchase Card	\$45.86	20050317	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
5	Misc Oper WT	Purchase Card	\$72.94	20050505	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
6	Misc Oper WT	Purchase Card	\$34.80	20050602	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
7	Misc Oper WT	Purchase Card	\$110.34	DANONE WATERS OF NORTH AM	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
8	Misc Oper WT	Purchase Card	\$63.68	DANONE WATERS OF NORTH AM	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
9	Misc Oper WT	Purchase Card	\$107.79	DANONE WATERS OF NORTH AM	ARTHUR W FAIELLO	HB00	Drinking Water For Staff
10	Misc General Office	Purchase Card	\$2.63	BASHAS #56 SYW	ARTHUR W FAIELLO	HC00	Condiments For Staff
11	M&S Maint SS	Purchase Card	\$26.54	BASHAS #56 SYW	ARTHUR W FAIELLO	HC00	Condiments For Staff
12	RUCO Expenses To Be Removed		<u>\$826.46</u>				
13	RUCO Adjustment		<u>\$826</u>				

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. SURR-RLM-6, Column (C), L25 + L22	\$ 653,317
	LESS:		
2	Arizona State Tax	Line 11	(3,101)
3	Interest Expense	Note (A) Line 22	(608,812)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	\$ 41,404
5	Federal Tax Rate	Sch. SURR-RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 14,077</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 653,317
	LESS:		
8	Interest Expense	Note (A) Line 22	(608,812)
9	State Taxable Income	Line 7 - Line 8	<u>\$ 44,505</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 3,101</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 14,077
13	State Income Tax Expense	Line 11	3,101
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ 17,178</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		-
16	Total Income Tax Adjustmen	Line 14 - Line 15	<u>\$ 17,178</u>
17	Company As Filed		\$ (237,148)
18	Difference		<u>\$ 254,326</u>
19	RUCO Adjustment (See Sch. SURR-RLM-7, Column (N))		<u>\$ 254,326</u>

NOTE (A):

Interest Synchronization:

20	Adjusted Rate Base (Sch. SURR-RLM-2, Col. (I), L14)	\$ 18,895,465
21	Weighted Cost Of Debt (SURR-RLM-16, Col. (F), L1)	3.22%
22	Interest Expense (L17 X L18)	<u>\$ 608,812</u>

**SURREBUTTAL
RATE DESIGN AND PROOF OF RUCO RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED DETERMIN"TS	(B) PROPOSED CHARGES & USAGE FEES	(C) RUCO PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	All	110,592	\$ 23.85	\$ 2,637,819	
2	Total Customers	<u>110,592</u>			\$ 2,637,819
	Commodity Usage				
3	First Tier	587,698,470	\$ 3.29	\$ 1,935,410	
4	Second Tier	459,256,000	No Charge	-	
5	Total Usage	<u>1,046,954,470</u>			\$ 1,935,410
6	TOTAL RESIDENTIAL CUSTOMERS REVENUE				<u>\$ 4,573,229</u>
COMMERCIAL CUSTOMERS					
7	Commercial - 5/8"	53	\$ 23.85	\$ 1,264	
8	Commercial - 3/4"	12	\$ 35.81	430	
9	Commercial - 1"	142	\$ 47.75	6,781	
10	Commercial - Large	811	\$ 95.48	77,434	
11	Total Customers	<u>1,018</u>			\$ 85,909
	Commodity Usage				
12	First Tier	65,038,940	\$ 3.29	\$ 214,186	
13	Second Tier	8,938,000	No Charge	-	
14	Total Usage	<u>73,976,940</u>			\$ 214,186
15	TOTAL COMMERCIAL CUSTOMERS REVENUE				<u>\$ 300,096</u>
WHOLESALE CUSTOMERS					
16	Treatco - All	50	No Charge		
	Commodity Usage				
17	All Usage	219,458,000	\$ 3.63	\$ 797,091	
18	Total Usage	<u>219,458,000</u>			\$ 797,091
19	TOTAL WHOLESALE CUSTOMERS REVENUE				<u>\$797,091</u>
20	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT				<u>\$ 5,670,416</u>
21	Other Wastewater Revenues				\$ 1,652,448
22	ADJUSTED RUCO PROPOSED REVENUE PER BILL COUNT				<u>\$ 7,322,864</u>
23	TOTAL RUCO RECOMMENDED REVENUE (Per SURR-RLM-6, Col. (E), L 3)				<u>\$ 7,322,864</u>
24	Difference				\$ 0

SURREBUTTAL

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 3,443,270	88.08%	\$ 5,638,913	80.75%	\$ 4,573,229	80.65%
2	OTHER	\$ 466,091	11.92%	\$ 1,344,594	19.25%	\$ 1,097,187	19.35%
3	TOTAL	<u>\$ 3,909,361</u>	<u>100.00%</u>	<u>\$ 6,983,507</u>	<u>100.00%</u>	<u>\$ 5,670,416</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIX REVENUE	2,133,219	54.57%	\$ 3,359,184	48.10%	\$ 2,723,728	48.03%
5	VARIABLE REVENUE	1,776,142	45.43%	\$ 3,624,323	51.90%	\$ 2,946,688	51.97%
6	TOTAL	<u>3,909,361</u>	<u>100.00%</u>	<u>\$ 6,983,507</u>	<u>100.00%</u>	<u>\$ 5,670,416</u>	<u>100.00%</u>
E2MS1 ALL RESIDENTIAL RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 20.30		\$ 29.42		\$ 23.85	
8	COMMODITY CHARGE						
9	All Residential - First 7,000 Gallons	\$ 2.5450		\$ 4.0620		\$ 3.2932	
10	All Residential - Over 7,000 Gallons	\$ -		\$ -		\$ -	
RESIDENTIAL BILL COMPARISONS							
COST OF WASTEWATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL			% OF AVERAGE MONTH USAGE OF 9,682 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11			25.00%	\$ 26.46	\$ 31.82	\$ 5.36	20.27%
12			50.00%	\$ 32.62	\$ 39.79	\$ 7.17	21.99%
13			100.00%	\$ 38.12	\$ 46.90	\$ 8.79	23.06%
14			150.00%	\$ 38.12	\$ 46.90	\$ 8.79	23.06%
15			200.00%	\$ 38.12	\$ 46.90	\$ 8.79	23.06%

**SURREBUTTAL
COST OF CAPITAL**

LINE NO.	DESCRIPTION	(A) CAPITALIZ'N PER COMPANY	(B) RUCO ADJM'TS	(C) RUCO ADJUSTED CAPITALIZ'N	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	DEBT	\$ 25,860,370	\$ -	\$ 14,781,695	60.00%	5.37%	3.22%
2	PREFERRED STOCK	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	17,240,246	-	9,854,463	40.00%	10.01%	4.00%
4	TOTAL CAPITALIZATION	<u>\$ 43,100,616</u>	<u></u>	<u>\$ 24,636,158</u>	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL						<u><u>7.22%</u></u>

References:

Columns (A) Thru (F): Testimony, WAR